

MARKET CONDUCT EXAMINATION

CHUBB GROUP OF INSURANCE COMPANIES

Federal Insurance Company

Pacific Indemnity Company

Great Northern Insurance Company

Executive Risk Indemnity, Inc.

Vigilant Insurance Company

Northwestern Pacific Indemnity Company

**15 MOUNTAIN VIEW ROAD
WARREN, NEW JERSEY 07061-1615**

JUNE 1, 2002 – MAY 31, 2003

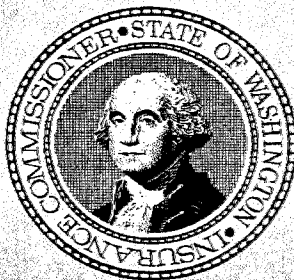


Exhibit A

TABLE OF CONTENTS

Section	Page
Table of Contents	2
Salutation	3
Chief Examiner's Report Certification	4
Foreword and Scope	5
Sampling Standards	6
Company History and Operations	7
General Examination Findings	8
Agent Activities	8
Underwriting and Rating	9
Rate and Form Filings	11
Cancellations and Non-Renewals	12
Summary of Standards	14
Instructions and Recommendations	19
Appendices	20

The Honorable Mike Kreidler
Washington State Insurance Commissioner
PO Box 40255
Olympia, Washington 98504

Dear Commissioner Kreidler:

Pursuant to your instructions and in compliance with the statutory requirements of RCW 48.03.010 and procedures promulgated by the National Association of Insurance Commissioners (NAIC) and the Office of the Insurance Commissioner (OIC), an examination of the market conduct affairs has been performed on the following companies:

Federal Insurance Company NAIC #20281
Executive Risk Indemnity, Inc. NAIC #35181
Great Northern Insurance Company NAIC #20303
Northwestern Pacific Indemnity Company NAIC #20338
Pacific Indemnity Company NAIC #20346
Vigilant Insurance Company NAIC #20397

In this report, the above entities are also referred to as the Companies. This examination is respectfully submitted.

CHIEF EXAMINER'S REPORT CERTIFICATION

This examination was conducted in accordance with Office of the Insurance Commissioner and National Association of Insurance Commissioners market conduct examination procedures. Sally Anne Carpenter, AIE, and Shirley M. Merrill of the Washington State Office of the Insurance Commissioner performed this examination and participated in the preparation of this report.

The examiners wish to express appreciation for the courtesy and cooperation extended by the personnel of the Chubb group of Companies during the course of this market conduct examination, and particularly acknowledges the efforts of those people who provided daily support to the examiners.

I certify that the foregoing is the report of the examination, that I have reviewed this report in conjunction with pertinent examination work papers, that this report meets the provisions for such reports prescribed by the Office of the Insurance Commissioner, and that this report is true and correct to the best of my knowledge and belief.



Leslie A. Krier, AIE, FLMI
Chief Market Conduct Examiner
Office of the Insurance Commissioner
State of Washington

FOREWORD

This examination was completed by applying tests to each examination standard. Each test applied during the examination is stated in this report and the results are reported. Exceptions are noted as part of the comments for the applied test. Throughout the report, where cited, RCW refers to the Revised Code of Washington, and WAC refers to Washington Administrative Code.

Prior Examination Summary

This was a target exam based on the findings from the prior examination that took place in 1999. Ten instructions were issued as a result of that examination for violations of the following statutes and regulations:

- RCW 48.17.591
- RCW 48.18.2901
- RCW 48.18.140
- RCW 48.18.300
- RCW 48.18.100
- RCW 48.03.030
- RCW 48.05.190
- WAC 284-24-070
- WAC 284-24-100
- WAC 284-30-560

Any repetitive violations are addressed in the appropriate section of this examination.

SCOPE

Time Frame

The examination covered the Companies' operations from June 1, 2002 through May 31, 2003. The examination was performed in the Companies' underwriting office in Seattle, Washington and in the Seattle Office of the Insurance Commissioner.

Matters Examined

The examination included the following areas:

- Agent Activities
- Underwriting and Rating
- Rate & Form Filings
- Cancellations and Non-Renewals

SAMPLING STANDARDS

Methodology

In general, the sample for each test utilized in this examination falls within the following guidelines:

	92%	Confidence Level
+/-	5%	Mathematical Tolerance

These are the guidelines prescribed by the National Association of Insurance Commissioners in the Market Conduct Examiners Handbook.

Regulatory Standards

Samples are tested for compliance with standards established by the Office of the Insurance Commissioner. The tests applied to sampled data will result in an error ratio which determines whether or not a standard is met. If the error ratio found in the sample is, generally, less than 5%, the standard will be considered as 'met'. The standard in the area of agent licensing and appointment will not be met if any violation is identified. The standard in the area of filed rates and forms will not be met if any violation is identified. This will also apply when all records are examined, in lieu of a sample.

For those standards which look for the existence of written procedures or a process to be in place, the standard will be met based on the examiner's analysis of those procedures or processes. The analysis will include a determination of whether or not the company follows established procedures.

Standards will be reported as Passed without Comment, Passed with Comment or Failed. The definition of each category follows.

Passed without Comment:	There were no adverse findings for the standard.
Passed with Comment:	The records reviewed fell within the tolerance level for the standard.
Failed:	The records reviewed fell outside of the tolerance level established for the standard.
Not Applicable	The standard is not applicable to this examination.

COMPANY HISTORY AND OPERATIONS

Company Name	Domiciled State	Incorporation Date	Date Admitted to WA
Federal Insurance Company NAIC #20281	Indiana	02-15-1901	01-01-1906
Executive Risk Indemnity, Inc. NAIC #35181	Delaware	09-23-1977	05-24-1994
Great Northern Insurance Company NAIC #20303	Minnesota	08-01-1952	11-27-1962
Northwestern Pacific Indemnity Company NAIC #20338	Oregon	02-14-1963	09-19-1963
Pacific Indemnity Company NAIC #20346	Wisconsin	01-16-1926	08-06-1926
Vigilant Insurance Company NAIC #20397	New York	07-17-1939	08-10-1953

The Companies wrote the following lines of business in Washington during the exam period:

Crime	Monoline Property
Directors and Officers	Surety
Employers Professional Liability	Management Liability
Excess Umbrella	Package
Fiduciary	Workers Compensation
Kidnap and Ransom	

The Companies subject to this exam belong to the Chubb Group of Insurance Companies, a holding company, which is publicly traded under the name Chubb Corporation. The Chubb Group, which includes 15 U.S. domestic insurers, four reinsured affiliates and four international affiliates, operates as a unit to provide a broad spectrum of underwriting support for their customers.

John D. Finnegan is chairman, president and chief executive officer of the Chubb Corporation. Thomas F. Motamed is president and chief operating officer of Federal Insurance Company.

Operations and Management Standard #2 is directed at Washington's domestic insurers and holding companies. It is not applicable to this examination.

The following Operations and Management Standard Passed without Comment:

#	OPERATIONS AND MANAGEMENT STANDARD	REFERENCE
1	The company is required to be registered with the OIC prior to acting as an insurance company in the State of Washington.	RCW 48.05.030(1)

GENERAL EXAMINATION FINDINGS

The following General Examination Standards Passed without Comment:

#	GENERAL EXAMINATION STANDARD	REFERENCE
1	All requested information was made available to the examiners, and the company otherwise facilitated the examination in a timely manner.	RCW 48.03.030(1)
3	The company maintains full and accurate records and accounts.	RCW 48.05.280
4	The company filed an antifraud plan with the OIC.	RCW 48.30A.045, RCW 48.30A.060

The following General Examination Standard Failed:

#	GENERAL EXAMINATION STANDARD	REFERENCE
2	The company does business in its own legal name.	RCW 48.05.190(1), Bulletin 78-7, Technical Assistance Advisory T 2000-06

Standard #2:

The insuring company was not identified correctly in correspondence or binders issued on eleven (11) policy files. See Appendix 1 for detail.

This violation was noted in the prior examination.

AGENT ACTIVITIES

The examiners reviewed the status of agents' licenses and appointments from the new and renewed policies reviewed in the underwriting sample and also from the list of active agents provided by the Companies. As part of the review, the examiners compared the Companies' agent licensing records with the OIC records to ensure that agents soliciting business for the Companies were licensed and appointed prior to soliciting business on behalf of the Companies as required by Washington law.

Findings

All agents and agencies reviewed by the examiners were licensed and appointed in Washington.

The following Agent Activity Standards Passed without Comment:

#	AGENT ACTIVITY STANDARD	REFERENCE
1	The company must ensure that agents or brokers are licensed for the appropriate line of business with the State of Washington prior to allowing agents to solicit	RCW 48.17.060(1) and (2)

#	AGENT ACTIVITY STANDARD	REFERENCE
	business or represent the company in any way.	
2	The company must require that agents are appointed to represent the company prior to allowing agents to solicit business on behalf of the company.	RCW 48.17.160(1) and (2)
3	The company must notify the OIC when an agent's appointment is revoked.	RCW 48.17.160(3)
4	The company must give an agency with a written agency contract at least 120 days notice of its intent to terminate the contract.	RCW 48.17.591(2)

UNDERWRITING AND RATING

The examiners selected 62 policies from a population of 7,996 policies that were either newly issued or renewed during the exam period. The examiners also reviewed 25 policies that the Companies declined to write.

Files were reviewed to determine if the Companies:

- followed the filed rating plans
- followed the underwriting rules
- were in compliance with Washington laws

The examiners manually rated policies to determine if there were any programmed errors in the Companies' computer system and if the Companies were using their filed and approved rates.

The following errors were returned to underwriting management for review and correction as needed:

- One policy was misclassified by the underwriter as a museum instead of a fundraising organization for a museum resulting in undercharging the insured \$210. The policy will be corrected at renewal.
- One policy was processed with an endorsement that resulted in a refund owed to the insured, but the issuing Company failed to send the refund. \$49 returned to the insured.
- One endorsement form had not been added to the policy when the coverage was changed.
- One policy contained an error as the vehicle was classified incorrectly. The correction had no rating impact on the policy.

Findings

The following Underwriting Standards Passed without Comment:

#	UNDERWRITING STANDARD	REFERENCE
1	Binders issued to temporarily secure coverage during underwriting are valid until the policy is issued or ninety days, whichever is shorter and shall identify the company providing the coverage and effective dates.	RCW 48.18.230(1), WAC 284-30-560
2	The company requires an insured to reject or request lower limits for underinsured motorist (UIM) coverage in writing.	RCW 48.22.030(3) and (4)
3	The company requires an insured to reject Personal Injury Protection (PIP) coverage in writing.	RCW 48.22.085(2)
4	During underwriting, the company uses only the personal driving record for personal insurance and only the commercial motor vehicle employment driving record for commercial insurance.	RCW 46.52.130, RCW 48.30.310, Bulletin 79-3, WAC 308-104-145
7	The company may not rely solely on the decision of another insurer's denial, cancellation, or non-renewal of insurance to support a denial or termination of coverage.	WAC 284-30-574

The following Underwriting Standards Passed with Comment:

#	UNDERWRITING STANDARD	REFERENCE
6	The company retains documentation related to the development and use of (a) rates.	WAC 284-24-070
8	Binders must identify the insurer which is bound by the form.	WAC 284-30-560(2)(a)

Standard #6:

One file did not contain the required documentation to support the rating. This violation was noted in the prior examination. See Appendix 2 for detail.

Standard #8:

One binder identified the wrong insurer. This violation was noted in the prior examination. See Appendix 2 for detail.

The following Underwriting Standard Failed:

#	UNDERWRITING STANDARD	REFERENCE
5	The company applies schedule rating plans to all policies as applicable in its filing and retains documentation and analysis to support the company's decision.	WAC 284-24-100

Standard #5:

Six files did not contain the underwriter's analysis or rationale for the decision to apply debits or credits, or the documentation to support the decision was not in the file. This violation was noted in the prior examination. See Appendix 2 for detail.

RATE AND FORM FILINGS

The examiners selected forms that were attached to the new and renewal policies used in the Underwriting sample for the rate and form filings review. The purpose was to determine if the Companies were complying with the laws regarding the filing and use of rates and forms.

The following error was returned to management for review and correction if necessary:

- One form attached to a policy was not the same version as the filed form.

Findings

Rate and Form Filing Standard #1 applies to personal lines only and is not applicable to this examination of the Companies' commercial activities.

The following Rate and Form Filing Standards Passed without Comment:

#	RATE AND FORM STANDARD	REFERENCE
6	Personal Injury Protection forms issued by the company contain coverage definitions and limits that conform to Washington law.	RCW 48.22.095, RCW 48.22.005
7	Rates for commercial policies must be filed within 30 days of use.	RCW 48.19.043(2)

The following Rate and Form Filing Standards Passed with Comment:

#	RATE AND FORM STANDARD	REFERENCE
3	The policy identifies all forms that make up the policy. The policy identifies all coverage limits.	RCW 48.18.140(2)(a) thru (f)
4	The policy must contain all endorsements and forms.	RCW 48.18.190
5	Policy forms for commercial policies are filed within 30 days of use.	RCW 48.18.103(2)

Standard #3:

One policy did not receive a mandatory Washington form. This violation was noted in the prior examination. See Appendix 3 for detail.

Standard #4:

One policy contained information showing terms that were agreed upon between the agent and the issuing company regarding fully earned premium. The policy did not contain the terms. See Appendix 3 for detail.

Standard #5:

The list of forms contained in one policy included two advisory forms that were not intended to be part of the policy. This same policy included a form that was not filed and approved for use. See Appendix 3 for detail.

The following Rate and Form Filing Standard Failed:

#	RATE AND FORM STANDARD	REFERENCE
2	Where required, the company has filed with the OIC classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates, and rating rules prior to use, and does not issue any policies that are not in accord with the filing then in effect.	RCW 48.19.040(1) and (6)

Standard # 2

- 114 umbrella policies with terrorism premium were written with rates that had been disapproved. \$65, 946.41 was returned to insureds.
- Seven policies were not rated according to the filing that applied when the policies were written.
- This violation was noted in the prior examination. See Appendix 3 for detail.

CANCELLATIONS AND NON-RENEWALS

The examiners reviewed files to determine if the Companies were in compliance with state laws governing policy cancellation and non-renewal. The examiners selected a sample 50 policies from a population of 1,025 policies that were either cancelled or non-renewed during the exam period. The examiners also reviewed 25 policies that were non-renewed or cancelled during the exam period that had been written through an agency whose relationship with the Companies had terminated.

Findings

The following Cancellation and Non-renewal Standard Passed without Comment:

#	CANCELLATION & NON-RENEWAL STANDARD	REFERENCE
1	The company does not cancel or refuse to renew policies because the agent is no longer affiliated with the company.	RCW 48.17.591

The following Cancellation and Non-renewal Standards Passed with Comment:

#	CANCELLATION & NON-RENEWAL STANDARD	REFERENCE
2	The company sends offers to renew or sends cancellation or non-renewal notices according to the requirements prior to policy termination.	RCW 48.18.290, RCW 48.18.2901, RCW 48.18.291, RCW 48.18.292

#	CANCELLATION & NON-RENEWAL STANDARD	REFERENCE
3	The company includes the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured.	WAC 284-30-570

Standard # 2:

Two policy renewal offers were not made within the time-frames set by the code. This violation was noted in the prior exam. See Appendix 4 for detail.

Standard #3:

Non-renewal notices sent on three policies did not contain specific reasons for the Company's decision. See Appendix 4 for detail.

SUMMARY OF STANDARDS

Company Operations and Management:

#	STANDARD	PAGE	PASS	FAIL
1	The company is required to be registered with the OIC prior to acting as an insurance company in the State of Washington. (RCW 48.05.030(1))	7	X	
2	The company is required to file with the OIC any amendments to the Articles of Incorporation for domestic insurers or insurance holding companies. (RCW 48.07.070)		N/A	

General Examination:

#	STANDARD	PAGE	PASS	FAIL
1	All requested information was made available to the examiners, and the company otherwise facilitated the examination in a timely manner. (RCW 48.03.030(1))	8	X	
2	The company does business in its own legal name. (RCW 48.05.190(1), Bulletin 78-7, Technical Assistance Advisory T 2000-06)	8		X
3	The company maintains full and accurate records and accounts. (RCW 48.05.280)	8	X	
4	The company filed an antifraud plan with the OIC. (RCW 48.30A.045 and RCW 48.30A.060)	8	X	

Advertising:

#	STANDARD	PAGE	PASS	FAIL
1	The company's advertising materials do not contain any false, deceptive or misleading representations. (RCW 48.30.040)		N/A	
2	The company does not use quotations or evaluations from rating services or other sources in a manner that appears to be deceptive to the public. (WAC 284-30-660)		N/A	
3	The company must use its full name and include the location of its home office or principle office in all advertisements. (RCW 48.30.050, Bulletin 78-7, Technical Assistance Advisory T 2000-06)		N/A	
4	The company referencing its financial condition in advertisements is required to show the actual financial condition as it corresponds with the financial statements published by each company, and must include only those assets actually owned and possessed by each company exclusively. (RCW 48.30.070)		N/A	
5	The company does not advertise the existence of the Washington Insurance Guaranty Association. (RCW		N/A	

#	STANDARD	PAGE	PASS	FAIL
	48.30.075)			
6	The company does not include any statements in its advertising material that would appear to defame the name of other insurers. (RCW 48.30.080)		N/A	
7	The company does not misrepresent the terms of its policies in any form during the advertising and solicitation of its products. (RCW 48.30.090)		N/A	
8	The company does not offer, promise, allow, give, set off, or pay to the insured or to any employee of the insured any rebate, discount, abatement or reduction of premium or any part of these as an inducement to purchase or renew insurance unless specifically exempted from this statute. (RCW 48.30.140, RCW 48.30.150)		N/A	

Agent Activities:

#	STANDARD	PAGE	PASS	FAIL
1	The company must ensure that agents or brokers are licensed for the appropriate line of business with the State of Washington prior to allowing agents to solicit business or represent the company in any way. (RCW 48.17.060(1) and (2))	8	X	
2	The company must require that agents are appointed to represent the company prior to allowing agents to solicit business on behalf of the company. (RCW 48.17.160 (1) and (2))	9	X	
3	The company must notify the OIC when an agent's appointment has is revoked. (RCW 48.17.160(3))	9	X	
4	The company must give an agency with a written agency contract at least 120 days notice of its intent to terminate the contract. (RCW 48.17.591(2))	9	X	

Complaints:

#	STANDARD	PAGE	PASS	FAIL
1	Response to communication from the OIC must be within 15 business days of receipt of the correspondence. The response must contain the substantial information requested in the original communication. (WAC 284-30-650, WAC 284-30-360(2), Technical Assistance Advisory T 98-4)		N/A	

Underwriting and Rating

#	STANDARD	PAGE	PASS	FAIL
1	Binders issued to temporarily secure coverage during underwriting are valid until the policy is issued or ninety days, whichever is shorter and shall identify the company providing the coverage and effective dates. (RCW 48.18.230(1), WAC 284-30-560)	10	X	
2	The company requires an insured to reject or request lower limits for underinsured motorist (UIM) coverage in writing. RCW 48.22.030(3) and (4)	10	X	
3	The company requires an insured to reject Personal Injury Protection (PIP) coverage in writing. (RCW 48.22.085(2))	10	X	
4	During underwriting, the company uses only the personal driving record for personal insurance and only the commercial motor vehicle employment driving record for commercial insurance. (RCW 46.52.130, RCW 48.30.310, Bulletin 79-3, WAC 308-104-145)	10	X	
5	The company applies schedule rating plans to all policies as applicable in its filing and retains documentation and analysis to support the company's decision. (WAC 284-24-100)	10		X
6	The company retains all documentation related to the development and use of (a) rates. (WAC 284-24-070)	10	X	
7	The company may not rely solely on the decision of another insurer's denial, cancellation, or non-renewal of insurance to support a denial or termination of coverage. (WAC 284-30-574)	10	X	
8	Binders must identify the insurer which is bound by the form. (WAC 284-30-560(2)(a))	10	X	

Rate and Form Filings:

#	STANDARD	PAGE	PASS	FAIL
1	Policy forms and applications, where required, have been filed with and approved by the OIC prior to use. (RCW 48.18.100) Applies to personal lines only.		N/A	
2	Where required, the company has filed with the OIC classification manuals, manuals of rules and rates, rating plans, rating schedules, minimum rates, class rates, and rating rules prior to use, and does not issue any policies that are not in accord with the filing in effect. (RCW 48.19.040 (1) and (6))	12		X
3	The policy identifies all forms that make up the policy. The policy identifies all coverage limits. (RCW 48.18.140(2)(a) thru (f))	11	X	
4	The policy must contain all endorsements and forms. (RCW 48.18.190)	11	X	

#	STANDARD	PAGE	PASS	FAIL
5	Policy forms for commercial policies are filed within 30 days of use. (RCW 48.18.103(2))	11	X	
6	Personal Injury Protection forms issued by the company contain coverage definitions and limits that conform to Washington law. (RCW 48.22.095, RCW 48.22.005)	11	X	
7	Rates for commercial policies must be filed within 30 days of use. (RCW 48.19.043(2))	11	X	

Cancellations and Non-Renewals:

#	STANDARD	PAGE	PASS	FAIL
1	The company does not cancel or refuse to renew policies because the agent is no longer affiliated with the company. (RCW 48.17.591)	12	X	
2	The company sends offers to renew or sends cancellation or non-renewal notices according to the requirements prior to policy termination. (RCW 48.18.290, RCW 48.18.2901, RCW 48.18.291, RCW 48.18.292)	12	X	
3	The company includes the actual reason for canceling, denying or refusing to renew an insurance policy when notifying the insured. (WAC 284-30-570)	12	X	

Claims:

#	STANDARD	PAGE	PASS	FAIL
1	The company settles claims in a manner that is not in conflict with any section of the Unfair Claims Settlement Act. (WAC 284-30-330)		N/A	
2	Company claim files contain detailed log notes and work papers that allow reconstruction of the claim file. (WAC 284-30-340)		N/A	
3	The company provides an explanation of all pertinent coverage to first party claimants. (WAC 284-30-350)		N/A	
4	The company acknowledges receipt of a claim within 10 days, and responds to all communication on a claim file within the time frames prescribed. (WAC 284-30-360(1) and (3))		N/A	
5	The company complies with requirements for prompt investigation of claims. (WAC 284-30-370)		N/A	
6	The company accepts or denies coverage within 15 days after receiving proof of claim. (WAC 284-30-380)		N/A	
7	The company settles automobile claims in accordance with standards established for prompt, fair and equitable claim settlements. (WAC 284-30-390)		N/A	
8	The company complies with the regulation regarding notification of PIP benefits, limitations, termination, or denial		N/A	

#	STANDARD	PAGE	PASS	FAIL
	of benefits. (WAC 284-30-395)			
9	The company surrenders titles for total loss vehicles to the Department of Licensing or provides other authorized documentation as required. (RCW 46.12.070, WAC 308-56A-460)		N/A	

INSTRUCTIONS AND RECOMMENDATIONS

INSTRUCTIONS

	Instruction	Location
1.	The Companies are instructed to comply with RCW 48.05.190(1) and ensure that the legal name of the company is clearly identified in correspondence.	Page 8
2.	The Companies are instructed to comply with WAC 284-24-100 and fairly apply its schedule rating plans to every eligible policy. In addition, the Companies are instructed to identify all policies that were debited inappropriately and refund the overcharged premium.	Page 10
3.	The Companies are instructed to comply with RCW 48.19.040(6) and follow its' filed rules and rates when issuing a policy.	Page 12

RECOMMENDATIONS

	Recommendation	
1	It is recommended that the Companies conduct an annual audit targeting continued regulatory compliance.	

APPENDIX 1
GENERAL EXAMINATION STANDARDS

General Standard #2	The company does business in its own legal name
Policy Number	Comments
81587902	Letter with quote identifies both “Chubb Custom Insurance Company” and “Federal Insurance Company” as the offering company
81657485	Letter does not clearly identify the insuring company
81647724	Letter does not clearly identify the insuring company
81648957	Letter does not clearly identify the insuring company
81684010	Letter does not clearly identify the insuring company
74983618	Agent issued binder that identified the insurer as Chubb Insurance Company. The policy should have been bound in Federal Insurance Company
79768848	Letter does not clearly identify the insuring company
35780938	Letter does not clearly identify the insuring company
79744618	Letter and cancellation notice do not clearly identify the insuring company
79074168	Letter does not clearly identify the insuring company
79073490	Letter does not clearly identify the insuring company

APPENDIX 2

UNDERWRITING & RATING STANDARDS

Underwriting and Rating Standard #5	The company applies schedule rating plans to all eligible policies as applicable, and retains documentation and analysis to support the company's decision
Policy number	Comments
35794194	File did not contain the underwriter's analysis/rationale for the decision to apply IRPM credits
79768848	File did not contain the underwriters analysis/rationale for the decision to apply IRPM credits/debits or support that schedule rating had been considered and found the insured to be an average risk
79776859	File did not contain the underwriters analysis/rationale for the decision to apply IRPM credits/debits or support that schedule rating had been considered and found the insured to be an average risk
49692122	File did not contain the underwriter's analysis/rationale for the decision to apply IRPM credits/debits or support that schedule rating had been considered and found the insured to be an average risk
35794142	File did not contain the underwriter's analysis/rationale for the decision to apply IRPM credits/debits or support that schedule rating had been considered and found the insured to be an average risk
73513148	File did not contain the underwriter's analysis/rationale for the decision to apply IRPM credits/debits or support that schedule rating had been considered and found the insured to be an average risk

Underwriting and Rating Standard #6	The company retains all documentation related to the development and use of "a" rates
Policy number	Comments
79136979	The company was unable to provide the required "a" rate documentation to support the development of the rate charged

Underwriting and Rating Standard #8	Binders must identify the insurer which is bound by the form
Policy number	Comments
74983618	Agent issued binder that identified the insurer as Chubb Insurance Company. The policy should have been bound in Federal Insurance Company

APPENDIX 3 RATES & FORM FILING STANDARDS

Rates and Form Filing Standard #2	All appropriate rate filing materials have been submitted and approved by the OIC prior to use
Policy number	Comments
114 umbrella policies	Policies were written with terrorism rates that were disapproved. \$65, 946.41 was returned to insureds
8168437	Policy was not rated according to filing. Refund to the insured \$189.00
35794144	Policy rated with wrong SIC code resulting in undercharging the insured. This will be corrected at renewal
35312653	An incorrect rate was used resulting in undercharging the insured \$843. This will be corrected at renewal
7498-50-23	An incorrect non-owned auto rate was used resulting in overcharging the insured \$24
7350-57-80	An incorrect non-owned auto rate was used resulting in overcharging the insured \$36
7352-20-66	An incorrect non-owned auto rate was used resulting in overcharging the insured \$24
35273577	Policy rated with an undocumented factor resulting in undercharging the insured \$5811.00

Rates and Form Filing Standard # 3	The policy identifies all forms and endorsements that make up the policy
Policy number	Comments
73227395	Mandatory Washington form was not included in the policy. The form has been added to the policy

Rates and Form Filing Standard #4	The policy contains all endorsements and forms
Policy number	Comments
3579-41-68	Agent & company agreed that the premium was fully earned. There was no endorsement or form on the policy addressing these negotiated terms

Rates and Form Filing Standard #5	Forms are filed for approval within 30 days of use
7352-20-66	The list of forms that make up the policy included three forms that were not filed. Form 16-02-0028 (04-94) was not filed and approved. The edition date of the filed and approved form is (Rev.1-88). The other two forms were for information only. The company did not intend that they become part of the policy. The forms were Premium Statement/ Premium Bill 16-02-0153 (Ed. 02.03) and Reducing Automobile Losses 16-10-0196 (02-01) or (Rev.01/01).

APPENDIX 4
CANCELLATION & NON-RENEWAL STANDARDS

Cancellation and Non-Renewal Standard #2	The Company's notices to renew, cancel or non-renew are sent prior termination and contain language as prescribed by law.
Policy Number	Comments
37109563	The company failed to make an offer to renew in a timely manner.
79782300	The company did not send the offer to renew at least 20 days prior to the expiration of the policy

Cancellation and Non-Renewal Standard #3	The company's notices did not give clear or specific reasons for the company's action.
Policy Number	Comments
35774248	The company did not give a clear reason for its action as required. The statement in the letter said the "risk no longer fits underwriting appetite and guidelines"
37571788	The non-renewal notice did not give the specific reasons for the company's decision.
81677219	The non-renewal notice did not give the specific reasons for the company's decision.



CHUBB GROUP OF INSURANCE COMPANIES

15 Mountain View Road, P.O. Box 1615, Warren, NJ 07061-1615

September 13, 2004

James T Odiorne, CPA, JD
Deputy Insurance Commissioner
Company Supervision Division
State of Washington
Office of Insurance Commissioner
P.O. Box 40255
Olympia, WA 98504-0255

RECEIVED
SEP 15 2004
INSURANCE COMMISSIONER
COMPANY SUPERVISION

RE: Market Conduct Examination - Chubb Group of Insurance Companies
Federal Insurance Company
Pacific Indemnity Company
Great Northern Insurance Company
Executive Risk Indemnity, Inc.
Vigilant Insurance Company
Northwestern Pacific Indemnity Company

Dear Mr. Odiorne:

We have reviewed the captioned Market Conduct Examination Report and accept the Report as written, subject to the two minor edits described in the penultimate paragraph of this letter. We offer the following response to the **INSTRUCTIONS AND RECOMMENDATIONS** indicated on Page 19 of the Report.

INSTRUCTIONS

1. The companies are instructed to comply with RCW 48.05.190(1) and ensure that the legal name of the company is clearly identified in correspondence.

Response:

We will instruct the Commercial Strategic Business Units, which are responsible for all commercial lines of business written in WA, that a Directive must be issued to field staff indicating that all correspondence between the company and the agent must contain the legal name of the Chubb company involved in the transaction. While we acknowledge that this violation was noted in the prior examination, we have shown a marked improvement from 40 violations on 14 policies in 1998 to 11 violations on 11 policies in 2004.

2. The companies are instructed to comply with WAC 284-24-100 and fairly apply its schedule rating plans to every eligible policy. In addition, the Companies are instructed to identify all policies that were debited inappropriately and refund the overcharged premium.

Response:

The Directives forwarded to our commercial lines underwriting staff will reiterate that all policies eligible for schedule rating must be reviewed and credits/debits applied and documented as appropriate.

All policies with unsupported debits brought to our attention during the course of the exam will be re-rated and appropriate premiums refunded.

3. The companies are instructed to comply with RCW 48.19.040(6) and follow its' filed rules and rates when issuing a policy.

Response:

The Directive forwarded by our Commercial Strategic Business Units will stress that all policies must be rated in accordance with the filed rules and rules for the coverage afforded.

RECOMMENDATIONS

1. It is recommended that the Companies conduct an annual audit targeting continued regulatory compliance.

Response:

We will advise the Commercial Strategic Business Units that an annual audit should be conducted that focuses on regulatory compliance.

We ask that following two corrections be made to the Report:

COMPANY HISTORY AND OPERATIONS (Page 7)

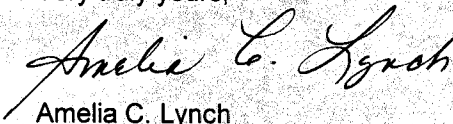
John D. Finnegan is the chairman, president and chief executive officer of The Chubb Corporation. Thomas F. Motamed is the president and chief operating officer of Federal Insurance Company.

APPENDIX 3 – RATES AND FORM FILING STANDARDS (Page 22)

The list of 236 commercial umbrella policies furnished to the examiners on April 6, 2004 contained a number of duplicate policy numbers as well as policies outside of the period 6/30/03 to 4/1/04 where we used a TRIA rate in excess of 2%. The actual number of umbrella policies impacted by incorrect terrorism rates for the period 6/30/03 to 4/1/04 was 94, and a total of \$64,783.78 was returned to the respective insureds by 5/7/04.

We would like to thank the WA Examiners for their courteous and professional conduct during the examination process.

Very truly yours,



Amelia C. Lynch
Senior Vice President/Deputy Compliance Officer
Chubb Group of Insurance Companies
(908) 903-3415
(908) 903-3820 FAX